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Michael J. Ward
Chairman, President
Chief Executive Officer

July 14, 2006

The Honorable W. Douglas Buttrey
Chairman
Surface Transportation Board
1925 K Street, N.W.
Washington, D.C. 20423-0001

Re: Railroad Service Demands – CSX Transportation Inc. Fall Peak Planning

Dear Chairman Buttrey:

This letter provides detailed information on the steps that CSX Transportation Inc. (CSXT) is taking to prepare for the 2006 Fall Peak and beyond.

Demand

CSXT and other Class I railroads are experiencing strong demand across virtually all markets, and this is expected to continue. Increases in industrial demand and imported products, combined with congestion on the highways, rising fuel prices, and a shortage of over-the-road truck drivers, will continue to push freight to fuel-efficient railroads. Demand for rail transportation has remained at the high levels achieved in 2005. CSXT's most recent volume forecasts for the second half of 2006 (including the Fall Peak), show continued strong traffic levels, especially in coal, intermodal and certain merchandise markets. CSXT is taking decisive actions to meet these demands in both the short- and long-term.

On an ongoing basis, CSXT communicates with its customers to forecast future traffic demand. Customer volume forecasts, combined with the company's own monitoring of market and economic conditions, are critical in planning for resources, operations and capacity investment. With lead times of 9 to 18 months for hiring and training crews and acquiring locomotives or rail cars, it is important that forecasts have sufficient detail and lead time.

CSXT is positioning itself and its customers to grow by adding new rail and intermodal capacity, acquiring locomotives, rebuilding certain car types, hiring additional employees, and improving service and asset utilization.

Class I railroads remain extremely capital intensive. The industry, as is well documented, does not earn a return on its cost of capital. The following are necessary if the industry is to continue to invest in new capacity: the ability to sustain price increases that more accurately reflect the value of rail transportation; the full recovery of fuel expenses; and continuation of the current regulatory framework.

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MICHAEL J. WARD
CHIEF EXECUTIVE OFFICER

CSXT's Performance

Disciplined execution of the ONE Plan is improving CSXT's overall performance, including a marked increase in the ability to recover from unplanned interruptions, such as the hurricanes of 2004 and 2005. This revamped operating plan is simplifying and optimizing the CSXT network through reduced terminal handlings and more efficient routings of merchandise and automobile traffic. Service measurements in 2006 are improving and have remained consistently positive and significantly better than in 2005. Improvements have been achieved in virtually all measurements, which indicate a system balance that is capable of absorbing additional Fall Peak traffic.

Here are comparisons in service performance for the first half of 2006 versus the same period in 2005:

Terminal Car Dwell: Rail cars are spending 4.1 fewer hours in terminals, or a 14% improvement, in the first half of 2006 compared to the first half of 2005. Second-quarter comparisons are even better: 25.5 hours, or a 16% improvement over the 30.4 hours for the same quarter last year.

On-Time Originations: Significantly more trains are departing originating terminals in compliance with the ONE Plan. On-time originations were 75.5% for the first half of 2006, compared to 48.8% for the same period in 2005. Second-quarter comparisons are even more favorable.

Velocity: The pace of trains between CSXT terminals also has improved. System velocity increased .4 mph, or 2%, both for the first half of 2006 and for the year's second quarter. (This measurement is expected to improve more dramatically as additional track capacity comes on line, which is discussed later.)

Cars On Line: The total number of cars on the CSXT system is an indicator of fluidity and operating efficiency. For the first half of 2006, CSXT is averaging 11,197 fewer cars on line versus the same period last year.

While this performance is much improved, the company is working aggressively to further improve operating performance and customer service, increase asset utilization, and reduce operating costs.

CSXT's Action Plan

To meet customer demand during the Fall Peak and beyond, CSXT is focusing on six key initiatives:

- **Disciplined Execution of the ONE Plan.** CSXT is now applying the ONE Plan to local service, while maintaining focus on over-the-road movements.
- **Integration of Locomotive Plan.** The success of the ONE Plan is driven by the availability of key resources, including locomotives. Improved locomotive reliability and management have played a key role in improved utilization and availability.
- **Continued focus on Grade Crossing Safety.** Innovative awareness programs are in place to supplement Operation Lifesaver campaigns, and clear-cutting projects at grade crossings enhance sight lines for motorists.

- **Focus on improving Crew Utilization.** Automated features added to crew dispatching systems improve crew utilization and availability while enabling train and engine service personnel to achieve a better work-life balance.
- **Coordinated Curfew Planning.** Earlier this month, engineering completed a maintenance blitz on a 58-mile segment of the railroad, temporarily rerouting trains and finishing in 10 days what would have previously taken 25 weeks of significant service disruption to accomplish.
- **Leadership and Operational Effectiveness.** Management training continues to accompany an emphasis on increased personal accountability.

In addition to these six initiatives, CSXT continues to work with its western partners to implement agreements to improve interchange over key gateways, including Chicago and New Orleans.

Capital and Capital-Related Improvements

Infrastructure improvements and other capacity enhancement are under way, including track expansions, continued investment in locomotives and cars, hiring, and siting of new intermodal terminals.

Track Capacity

CSXT is working on expansion projects on key corridors. After investing an average of \$977 million per year in capital improvements since 2000, the company has budgeted approximately \$1.4 billion in 2006 and will invest a similar amount in 2007. A portion will be used to build approximately 60 track sidings at strategic points between Chicago and Jacksonville, and northern New Jersey and Albany, N.Y. The sidings on the River Line between Albany and northern New Jersey will increase long-term capacity of the Interstate 90 corridor between Chicago and New York City. Sixteen of the 60 total sidings, 10,000 feet and more in length, will be operational during the 2006 Fall Peak with the remainder completed by the end of 2007. Track capacity is also being increased at the St. Louis gateway and connecting sites, which will facilitate the movements of western coal as well as other traffic.

All of this capacity investment is in addition to the rebuilding of the company's Gulf Coast line from New Orleans to Mobile, Ala., which was significantly damaged by Hurricane Katrina last August. That line re-opened earlier this year after intense work over five months to rebuild bridges and track.

Equipment

Locomotives: CSXT focuses on maximum use of its fleet and prudent investment in new units. In the past three to four months, CSXT has taken delivery of 100 new high-horsepower units, which will be available for Fall Peak, in addition to approximately 100 locomotives added in the second half of 2005. Through Fall Peak, the company will maintain its current level of leased units. CSXT is continuing to improve its locomotive management to maximize utilization and availability.

Freight Cars: To help meet customer demand, CSXT is spending more than \$108 million on its freight car fleet in 2006. CSXT is confident that its serviceable fleet will be sufficient to meet the

Fall Peak demand. However, the company has accelerated a number of car repair programs and expects continued improvement in car reliability.

Employees

CSXT has accelerated efforts to recruit, hire and train crews. A total of 1,500 employees will complete training at the company's Railroad Education and Development Institute, resulting in a net gain of 575 more train and engine service personnel available for Fall Peak over 2005 levels.

It Starts With the Customer

"It Starts With the Customer" is at the heart of the company's core values. Efficient, reliable service enables growth. By anticipating and meeting customers' needs and making it easier for them to conduct business with the company, CSXT retains and expands its customer base. Service innovations, streamlined operations, and new affiliations with other transportation companies have positioned the company to achieve long-term growth from the global economy.

CSXT communicates to its customers on a regular basis through its many Sales & Marketing, Customer Service and Operations professionals. Communication also occurs in customer forums, including the company's annual Feeder Line Conference, and through websites and other electronic tools. The website, www.csx.com, provides information about service plans and maintenance curfews, and also features shipment status tracking. CSXT's Customer Service Center team can be reached at 1-800-ShipCSX for questions and problem resolution. Company representatives will continue to communicate our plans for serving customers throughout 2006, and look forward to participating in the annual customer meeting in St. Louis on September 13.

As always, customers can help service performance by:

- Providing timely and accurate car orders;
- Submitting timely and electronic Bills of Lading;
- Submitting electronic work instructions;
- Using CSXT-based tools to track shipment status;
- Calling 1-800-ShipCSX for problem resolution;
- Providing information regarding changes in traffic flows and volumes.

With CSXT operating safely, more reliably and efficiently, and with the addition of capacity and other resources, the company expects to meet demand during the 2006 Fall Peak and beyond. I look forward to continuing to work productively with our customers, the industry, and the STB.

Sincerely,



cc: Francis P. Mulvey, Vice Chairman
Edward R. Hamberger, Association of American Railroads